ISSUE DATE: November 1, 2000

DOCKET NO. E,G-002/M-00-448

DOCKET NO. E-002/M-00-420

ORDER DIRECTING REFUND AND COMPLIANCE REPORT

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

Gregory Scott	Chair
Edward A. Garvey	Commissioner
Joel Jacobs	Commissioner
Marshall Johnson	Commissioner
LeRoy Koppendrayer	Commissioner

In the Matter of Northern States Power Company's Petition for Approval of its 1999 DSM Financial Incentive, Conservation Cost Recovery, Conservation Improvement Program Adjustment Rate, Mechanism for Removing Exempted Customers from the Conservation Improvement Program Tracker, and Approval of the Conservation Improvement Program Status Report	ISSUE DATE: November 1, 2000 DOCKET NO. E,G-002/M-00-448
In the Matter of a Request by Northern States Power Company for Approval to Amend the Terms of its Electric Fuel Clause Adjustment Rider	DOCKET NO. E-002/M-00-420 ORDER DIRECTING REFUND AND COMPLIANCE REPORT

PROCEDURAL HISTORY

I. THE 420 DOCKET

On April 4, 2000, NSP filed a petition for a variance to the fuel clause rules to allow the fuel clause adjustment each month to be based on a month-ahead forecast of energy costs rather than on averaged actual costs from a historical period. The request included a rolling monthly true-up mechanism and a deferral for one year of the unrecovered expenses associated with the transition from historical to forecasted cost recovery. The proposal would allow customers to have more current pricing information by which they could better guide their energy use and resulting spending.

On May 4, 2000, the Department of Commerce recommended several modifications, including reporting requirements and customer bill notices, which were accepted by the Company in reply comments filed May 16, 2000.

In an Order dated June 27, 2000, the Commission approved the Company's request, adopting the recommendations of the Department of Commerce. The Commission's Order approved NSP's request for a one-year variance to the Commission's fuel clause rules to permit NSP to base the fuel clause adjustment on a month-ahead forecast of energy costs and granted deferred accounting for certain transition costs, indicating that the Company would need to support any claim for rate recovery in a future filing.

On September 12, 2000, NSP submitted a filing in this docket (E-002/M-00-420) and Docket No. E, G-002/M-00-448. In this filing, NSP 1) calculated the amount of the transition cost obligation, $16,987,374, 2) described the options for transition cost recovery, 3) discussed the considerations for evaluating the recovery options, and 4) jointly recommended with the Department that the Commission adopt the netting approach to transition cost recovery. The filing included the Department's endorsement of the filing.

On September 22, 2000, the Commission issued a notice indicating that it would consider this matter in conjunction with Docket No. E, G-002/M-00-448 on October 5, 2000.

II. DOCKET NO. E,G-002/M-00-448

On July 31, 2000, the Commission issued its ORDER SETTING CIP ADJUSTMENT FACTOR AND CCRC CREDIT, REQUIRING REFUND PLAN, AND SOLICITING COMMENTS in Docket No. E,G-002/M-00-448. In that Order, the Commission directed NSP to file a refund plan for refunding all amounts over-collected under the CIP rate adjustment, other than amounts under appeal. The Commission further directed NSP to explain the calculation of carrying charges and demonstrate that those charges are not being paid out of ratepayer-supplied funds. In addition, the Commission solicited comments on the Commission's authority to set an interest rate higher than the 7.7% rate proposed by NSP.

On August 15, 2000, NSP filed a proposed refund plan proposing, among other things, to refund approximately $24 million in one-time bill credits. The Company also raised the possibility of netting a $17 million transition cost (Docket No. E-002/M-00-420) against the $24 million refund proposed in the current docket (E,G-002/M-00-448).

On September 5, 2000, the Department filed comments recommending the proposed $24 million refund as reasonable.

On September 12, 2000, NSP and the Department recommended the netting option alternative described by NSP in its September 5, 2000 filing.

On September 22, 2000, the Commission issued a notice indicating that it would consider this matter in conjunction with Docket No. E-002/M-00-420 on October 5, 2000.

III. COMMISSION JOINT CONSIDERATION

The Commission met on October 5, 2000 to consider these two dockets together.

FINDINGS AND CONCLUSIONS

I. RECOVERY AND VERIFICATION OF TRANSITION COSTS (DOCKET NO. E-002/M-00-420)

In its July 31, 2000 Order in Docket No. E-002/M-00-420, the Commission approved NSP's request for a one-year variance to the Commission's fuel clause rules to permit NSP to base the fuel clause adjustment on a month-ahead forecast of energy costs. The Commission granted deferred accounting for certain transition costs, indicating that the Company would need to support any claim for rate recovery in a future filing.

The Commission (as well as the Department) has reviewed the documentation submitted by NSP to verify the amount of its claimed transition costs, $16,987,374. The Commission agrees with the Department's conclusion that the Company's submitted information substantiates the amount of transition costs claimed by the Company. Accordingly, the Commission finds that the Company is entitled to rate recovery of this amount.

II. CARRYING CHARGES ISSUES (DOCKET NO. E,G-002/M-00-448)

As part of its July 31, 2000 Order in Docket No. E,G-002/M-00-448, the Commission directed NSP to explain the calculation of carrying charges and demonstrate that those charges are not being paid out of ratepayer-supplied funds.

The Commission has reviewed NSP's August 15, 2000 explanation of how it calculated and applied carrying charges. The Commission agrees with the Department finds that the Company's calculation of the carrying charge is reasonable. The carrying charge is consistently calculated both when an amount is owed the Company and when an amount is owed to customers.

In addition, the Commission finds that, as the Company explained, carrying charges are not being paid out of ratepayer-supplied funds. The interest expense on the CIP balance owed to customers is recorded to a below-the-line account and is, therefore, chargeable to shareholders, not to customers.

Finally, the Commission approves NSP's proposal (supported by the Department) to apply 13.55% to the CIP balance **after** tax deduction. NSP applied a carrying charge of 13.55% applied to the non-tax portion of the CIP tracker balance whether the balance in the tracker is owed to ratepayers or owed to the Company. This is reasonable because the ratepayers should not be required to pay a carrying charge on amounts that the Company can deduct from its taxes. By the same token when balances are due to ratepayers, it is consistent that the

Company should not have to pay a carrying charge on the portion representing taxes paid. Taking this into consideration, the effective interest rate on the entire balance is 7.7%.

III. ALTERNATIVE INTEREST RATE ISSUE (DOCKET NO. E, G-002/M-00-448)

In its July 31, 2000 Order in Docket No. E,G-002/M-00-448, the Commission solicited comments on the Commission's authority to set an interest rate higher than the 7.7% rate proposed by NSP.

In its August 15, 2000 filing, NSP explained that the carrying charge mechanism was granted by Commission Order dated August 23, 1988 in Docket No. E-002/GR-87-670 and argued that it would be inequitable and arbitrary to raise the interest rate above the currently authorized level only when (as in the current case) the CIP tracker balance favors ratepayers.

The Department stated that the Commission appeared to have authority to set a different interest rate, but that the circumstances in this case did not warrant a change.

The Commission notes that the existing carrying charge mechanism on the CIP tracker balance has been in place for many years[1], with the most recent carrying charge factor of 13.55%. That factor was based on the rate of return allowed in NSP's most recent rate proceeding, Docket No. E-002/GR-92-1185. The Commission finds that this factor (13.55%) is reasonable in this case, thus will maintain it, and (as indicated above in Section II regarding carrying charge issues) will apply it to the non-tax CIP tracker balance, i.e. after adjusting the tracker balance for the income tax effects.

IV. REFUND PLAN

In a September 15, 2000 filing, NSP and the Department have jointly proposed a refund plan that nets the (approximately $17 million) in transition costs against the amount the Company originally proposed to refund, i.e. $24,007,436.

- Deferral of the transition costs was approved in the Commission's June 27, 2000 Order in Docket No. E-002/M-00-420 and the Company's claim to recover this amount is approved in this Order (See Section I).

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[1] See In the Matter of the Application of Northern States Power Company for Authority to Increase its Rates for Electric Service in Minnesota, Docket No. E-002/GR-87-670, FINDINGS OF FACT, CONCLUSIONS OF LAW, AND ORDER (August 23, 1988).

- Calculation of the amount initially proposed by NSP to be refunded (before adjusting for the transition costs) is also acceptable. The Company proposed to retain, pending court order after appeal, the amount of 1998 CIP incentives subject to appeal ($35,035,663, including $1,268,899 of carrying charges through 1998) and to refund the over-collection that was in excess of the amount subject to appeal: $24,007,436, including carrying charges of $849,833 to August of 2000.

The proposal by NSP (supported by the Department) to net the transition costs against the amount of over-collection in the CIP tracker that is not subject to appeal (i.e. $24,007,436) is acceptable and will be approved. This approach will avoid a future surcharge, minimize customer confusion, limit the amount of price distortion, and eliminate the deferred transition cost balance in the year in which the fuel costs were incurred. A potential drawback is that in the scenario where the Commission does not renew the pilot forecasted fuel clause mechanism, there would be a need to transition back to the old method. The Commission concludes, however, as advised by the Department, that any such a reverse transition could be worked out and the benefits of netting the current transition costs against the refund outweigh the disadvantages.

Other features of the refund proposed by NSP in its August 15, 2000 filing and supported by the Department were:

1. NSP proposed to make the refund 6 to 8 weeks after Commission Order approving the refund plan;

2. NSP proposed to apply the refund as a credit against all bills and arrears only to active customer accounts;

3. NSP would not refund amounts less that one cent;

4. NSP proposed to more accurately calculate the refund factor to be applied to customer's bills (estimated at -1.5%)[2] at the time of implementation;

5. exempt customers would receive about $953,915[3] in refunds for the CIP charge included in base rates plus the refund for the excess collection;

6. NSP stated that it would file a compliance filing detailing the actual computations and refund within 30 days of the completion of the refund; and

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[2] The Company's August 15, 2000 estimate of this percentage will, of course, be modified in response to the decision to net the approximately $17 million transition costs against the amount of CIP overcollection that is not subject to appeal.

[3] This amount, like the percentage referred to in Footnote 3, may be affected by the netting of transition costs.

7. the amount subject to appeal at court, estimated at $39,432,532 including interest as of July 31, would be retained at NSP until a final court order is received.

The Commission finds that the seven points listed above (adjusted with respect to Points 4 and 5 as noted in Footnotes 3 and 4) are reasonable and will approve them.

ORDER

1. NSP shall conduct a refund of the CIP over-collection that is not subject to appeal (approximately $24 million), netted against the transitional fuel costs (approximately $17 million) and incorporating a carrying charge of 13.55%, applied to the CIP balance after tax deduction. In all other respects, NSP's refund shall be as described above at page 5.

2. Within 30 days after completion of the refund, NSP shall file a compliance report.

3. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Burl W. Haar
Executive Secretary

(S E A L)